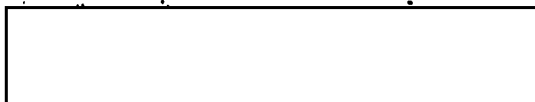


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MEMORANDUM FOR:

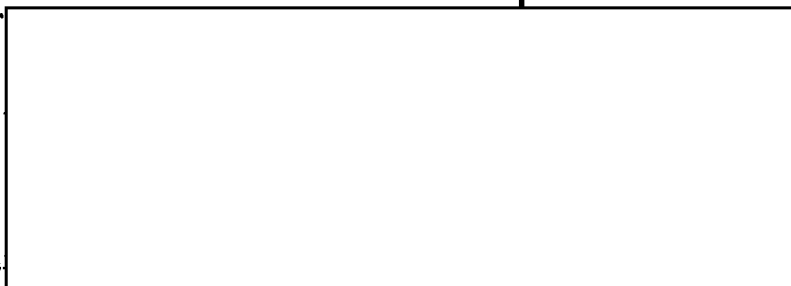
The attached S-project No. 6081,
US Ferrochrome Position, was passed to
 Congressman

Ralph Regula on 10 April 1974.

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11 April 1974
(DATE)

FORM NO. 101 REPLACES FORM 10-101
1 AUG 54 WHICH MAY BE USED.

(47)

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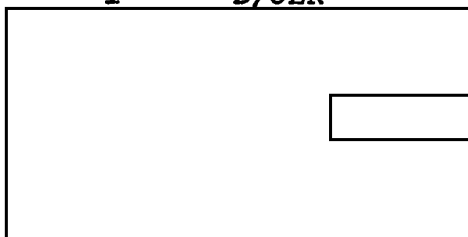
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US Ferrochrome Position

Although reading like a litany of horrors, the assessment of the US chrome position and the importance of Rhodesian chrome is essentially correct. US dependence on foreign ferrochrome is increasing very rapidly as shown in Table 1, with imports rising from 41,000 tons in 1970 to 155,000 in 1973. It is interesting to note that Rhodesia supplied 33% of that increase directly and probably a very large part of it indirectly. Most of the ferrochrome producing countries listed do not have indigenous deposits and must import ore. Rhodesia is a major supplier of metallurgical grade ore to many of these countries including South Africa.

The reason for increased imports of ferrochrome by the United States is two-fold. First, the US ferrochrome industry is declining due primaxily to its inability to compete with foreign producers and in part to the difficulty of obtaining metallurgical grade ore abroad. As shown in Table 2, US imports of metallurgical grade ores declined from 700,000 tons in 1970 to 380,000 tons in 1973. This decline was made up by larger imports of ferrochrome. The second reason is an increase in requirements due to increased production of specialty steels that require ferrochrome.

During the UN embargo, the US essentially switched from Rhodesian chromite to Russian chromite. Such a switch is now more difficult because of the decline of the US ferrochrome industry and its increased reliance on imports of ferrochrome rather than chromite. We are not certain how long it would take to reverse this trend and expand the US ferrochrome industry to consume Soviet chromite but it stands to reason that there would be difficulties and expenses involved not to mention pollution problems. Secondly, there is no assurance that Soviet chromite would be available.

It might also be noted that dependence on the USSR is not desirable in spite of the present detente. The USSR stopped all chromite shipments to the US during the Korean war and might well consider similar action should the Middle East flare up again. In addition, prices for Soviet chromite would almost certainly rise once again as they did during the 1967-71 UN embargo period.

In effect a unilateral US embargo on Rhodesian ferrochrome would have little effect on Rhodesia while penalizing the US severely. Rhodesia had almost no difficulty disposing of its chromite during the last embargo and there is no reason to think the situation would be different this time. South Africa has traditionally acted as a middleman for Rhodesian trade and continues to do so. Moreover, many of the embargoing nations found ways of circumventing the embargo

at considerable profit to themselves and expense to the
US and this too would probably be repeated.

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 Table 1. US Imports for Consumption of Ferrochromium by Country

	(Short Tons)							
	1970		1971		1972		1973	
	Low Carbon	High Carbon	Low Carbon	High Carbon	Low Carbon	High Carbon	Low Carbon	High Carbon
Brazil	--	--	--	1,382	--	4,205	--	7,130
Canada	--	--	184	515	45	--	9	--
Finland	--	5,919	--	10,903	--	6,887	--	8,652
West Germany	2,579	4,458	5,033	6,738	2,949	2,316	2,076	413
Japan	310	347	7,390	12,992	14,134	3,577	10,856	441
Mozambique	--	560	--	--	--	--	1,653	1,107
Norway	3,387	489	3,458	300	6,282	3,318	3,194	1,160
Rhodesia	--	--	--	--	3,578	11,835	4,668	46,083
South Africa	19,735	560	14,633	7,174	23,095	30,890	13,218	41,360
Spain	--	--	--	--	--	--	--	1,395
Sweden	2,933	--	5,434	220	9,608	1,171	6,016	1,161
Turkey	--	--	1,120	--	6,882	--	1,653	--
Yugoslavia	--	--	--	--	1,117	4,844	--	3,307
France	28	--	1,086	4,255	465	--	--	--
Belgium-Luxembourg	--	--	--	110	39	1,554	--	--
India	--	--	2,260	--	--	--	--	--
Italy	--	--	--	--	--	1,653	--	--
Netherlands	--	--	--	--	--	--	--	--
Total	28,972	12,333	40,598	44,589	68,194	827 73,077	43,344	112,198

Table 2: US Imports for Consumption of Metallurgical-Grade Chromite

(Thousand Short Tons)				
<u>Country</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
Iran	31	12	--	--
Pakistan	31	35	27	21
Philippines	--	--	9	--
South Africa	97	140	104	34
Turkey	135	180	56	83
USSR	409	274	371	202
Rhodesia	--	26	65	43
Total	703	667	632	383

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RHODESIAN CHROME

Stainless steel permeates virtually every facet of our economy, from jet engine components to medical equipment to household products. The indispensable ingredient in stainless steel is chromium. Most grades of this special steel product contain upwards to 18 percent of chromium. Enactment of H.R. 8005 would place in serious jeopardy the viability of this country's stainless steel industry. That bill would prohibit the importation of chrome from Southern Rhodesia. Rhodesia has two-thirds of the world's metallurgical grade chromite ore reserves and has rapidly developed as a major converter of that ore into ferrochrome. Ferrochrome--not chrome ore--is the essential ingredient in the production of stainless steel. Chromite ore in its raw state cannot be used in the steel producing furnaces. H.R. 8005 would place Rhodesia's high grade ore out of the reach of U.S. producers and likewise would deprive our stainless industry of Rhodesia's high grade ferrochrome. The next largest producer of chrome is South Africa which, in most instances, must upgrade the quality of its ore by introducing Rhodesian ore in order to produce ferrochrome.

The Soviet Union would thence become the only major available alternative to Rhodesia as a source of metallurgical grade chromite. During the period of 1967-71 when a UN inspired U.S. embargo of Rhodesia was in effect, this country imported more than half its total requirements from Russia. During that period, the price of chrome doubled. Based on this historical pattern, we can reasonably project a significant price increase if Russia regains its monopolistic position. Turkey, Finland, and Brazil--the major holders of the small proportion of chrome not otherwise accounted for--cannot be relied upon to supply our needs in the future. In addition to a long-term commitment to Japan to supply it over 2.5 million tons of chrome a year, Japan's high

grade chromite resources are being rapidly depleted. Finland and Brazil do not have the quality ore or capacity to supply large quantities of chrome.

Nor is the U.S. strategic stockpile a reliable source, since nearly half of the chromite it contains is of such low quality as to be virtually useless. Since 1962, the national stockpile of metallurgical grade chromite has declined over 43 percent, and with current proposal to further liquidate the stockpile, our national inventory would be reduced to less than a six-month supply of high-grade metallurgical chromite. The Administration has proposed to reduce that grade of ore to 444,710 tons. In the first quarter of 1973, the metallurgical industry consumed 457,155 tons of chromite. According to the U. S. Bureau of Mines, the industrial stock of metallurgical chromite is at lowest level in five years.

No chromite ore has been mined in the U.S. since 1961. In addition to this fact, U.S. imports of metallurgical chromite ore have declined steadily because for most companies it is no longer economical to produce ferrochrome in the United States. A number of factors contribute to this. Ferrochrome production is largely dependent upon low cost electric power. Because power costs in the U.S. are considerably above those of some foreign producers whose electric power consumption is subsidized by their governments, ferro-alloy manufacturers find it extremely difficult to remain competitive. Likewise, large expenditures for pollution control devices have placed the industry at a further competitive disadvantage. In addition, many producers decided to withdraw from the market during the previous Rhodesian sanctions period because of the relative unavailability of raw materials. Finally, the Rhodesians developed during the embargo

a significant ferrochrome production capacity which is expected to exceed 400,000 tons per year during 1974--almost double the U.S. capacity.

If the Rhodesian and South African supplies are cut off, U.S. consumers can expect to pay highly inflated prices for the remainder of material that is available. In 1972, the Rhodesian price of \$228 per ton for high carbon ferrochrome was 30 percent below the Japanese average and \$100 per ton below that offered by German and Norwegian producers. Intense pressures on these limited markets cannot help but drive prices even higher. With the serious inflationary problems currently facing the country, it seems irresponsible to further fuel those fires by excluding a market which has traditionally been available at a cheaper price.